USEITI Implementation Subcommittee
Wednesday, January 13, 2016
2:00pm – 3:30pm
Meeting Summary

Meeting Agenda
2:00 Welcome and Introductions
2:10 Subcommittee and Workgroup Membership Update
2:20 IA Data Analysis and Recommendations for Sampling Methodology
3:20 Walk-ons/Next Steps
3:30 End

Subcommittee and Workgroup Membership Update
For everyone renewing their membership on the MSG you should have received your re-appointment letter for the next three years. The Co-chairs met last week to review the Subcommittee and Workgroup memberships but memberships have not yet been finalized. The Implementation Subcommittee will add two new Workgroups: The Reconciliation Workgroup and the Tax Reporting Workgroup. Again, final decisions haven't been made on membership but everyone should email their co-chairs with their input on Subcommittee and Workgroup membership. Membership should be established on or before the January 21st MSG Onboarding Meeting.

The MSG Onboarding Meeting has been scheduled for January 21st to formally introduce the new Members and explain and review the MSG Terms of Reference, the Committee Charter, and decisions the MSG has made in the past. The discussion will also include a review the milestones for moving forward in 2016 and beyond.

A recommendation was made that for the Reconciliation Workgroup, Jim Steward (GOV Sector) will lead the group with support from ONRR Staff. It was also recommended that Paul Bugala and Isabel Munilla from the CSO Sector join and John Harrington from IND Sector join as well.

On the Tax Reporting Workgroup Curtis Carlson (GOV Sector) is requested to lead the Workgroup and Zorka Milin (CSO) and Aaron Padilla (IND) were also requested to join the Workgroup as well. The Tax Workgroup would figure out next steps for Reporting Taxes. For now we are going to keep this group small and will expand later if necessary.

John Mennel will participate in the Tax Workgroup, and Kevin Chen, Alex Klepacz, and Isabelle Brantley will participate in both Workgroups on behalf of the IA.

Subcommittee and Workgroup Membership will be finalized at the MSG Onboarding Meeting next week on Jan 21st.

IA Data Analysis and Recommendations for Sampling Methodology (Attached)
The IA has prepared a data analysis and recommendation to begin the discussion on the Sampling Methodology so that by the March 2016 MSG Meeting the MSG is prepared to approve a Methodology if that is the direction the MSG chooses to go.

The Sampling Plan may need to be revisited after Dodd Frank 1504 is approved and implemented.

The proposed Sampling process is as follows:

1. DOI discloses all material Revenue through UDR
2. IS and the MSG will identify all in-scope companies
3. From that population in scope the IA would select a stratified random sample (high 60% of revenue, medium 25% of revenue, low 15% of revenue)
4. Sampled companies would report and be reconciled
5. At the end of the reporting period the IA and MSG will reassess the sampling process and decide if they need to make changes to this process
6. Based on 44 companies the minimum sample size would be 9. Professional judgement should be used to increase that sample size and would ultimately be decided by the MSG.

A few additional points made are:

- In subsequent years the IA recommends to begin lowering the strata thresholds so that in year three the sample might be down to possibly just 12 companies being chosen. Additionally, if you are selected in year one you have a lower chance of being selected for the year 2 sample.
- Taxes would fall outside of sampling, and it is recommended by the IA that all in-scope companies would need to reconcile taxes since taxes are not unilaterally disclosed.

The IA has put forth their analysis and recommendation. The Reconciliation Workgroup will now prepare a recommendation for the Subcommittee who will make a final recommendation to the full MSG at the March 2016 MSG Meeting. The IA would also like to socialize this with the International Secretariat. The EITI Global Conference is at the end of February in Lima, Peru, so it is not likely we will get guidance from the Secretariat before then. Greg and Paul will continue discussions with the International Secretariat while they are at the EITI Global Conference.

The materiality thresholds and margin of variance should also be analyzed by the Reconciliation Workgroup and the Workgroup should prepare a recommendation for the Subcommittee to bring to the full MSG at the March MSG Meeting.

The IA will recirculate the slide that documents all the decisions that need to be made at the March MSG Meeting.

Walk-ons/Next Steps
MSG Onboarding Conference Call – Thursday, January 21, 2016
Next Subcommittee Meeting – Wednesday, January 20, 2016
Meeting Materials for MSG Meeting Posted – February 23, 2016
EITI Global Conference – February 24-25, 2016
Next MSG Meeting – March 8-9, 2016

List of Attendees:
Aaron Padilla, API
Alex Klepacz, Deloitte
Chris Mentasti, DOI
Claire Ware, Eastern Shoshone & Northern Arapaho Tribes
Curtis Carlson, Treasury
Dan Dudis, Transparency-USA
Emily Kennedy, API
Greg Gould, DOI
Isabelle Brantley, Deloitte
Jerold Gidner, DOI
Jim Steward, DOI
Johanna Nesseth Tuttle, Chevron
John Cassidy, Deloitte
John Harrington, ExxonMobil
John Mennel, Deloitte
Judith Wilson, DOI
Keith Romig, United Steelworkers
Kevin Chen, Deloitte
Kim Oliver, DOI
Mia Steinle, POGO
Mike LeVine, Oceana
Mike Matthews, State of Wyoming
Nathan Brannberg, DOI
Phil Denning, Shell
Robert Kronebusch, DOI
Sarah Platts, Deloitte

USEITI Sampling Recommendation

Background

In the 2015 U.S. Extractive Industries Transparency Initiative (USEITI) Report, the Independent Administrator (IA) recommended a "revised approach for reconciliation" that included exploring a sampling methodology. During the December 2015 meeting, the Multi-Stakeholder Group (MSG) asked the IA to propose options for a sampling methodology. This sampling methodology is for selecting extractive companies to report and reconcile DOI revenue for the 2016 USEITI Report.

The objectives for developing a sampling methodology for non-tax revenue reconciliation are to:

- Create a mechanism which incrementally reduces the level of effort required for annual reporting and reconciliation;
- Create a mechanism that effectively manages the reporting and reconciliation process until the industry effectively implements the requirements of the Dodd-Frank Act, at which the sampling methodology will need to be reviewed and potentially revised;
- Identify sample populations for which reporting and reconciliation continues to provide r**easonable assurance** regarding the integrity of the USEITI process.
- Leverage an annual risk based approach to attain reasonable assurance using progressively smaller samples;
- Identify sample populations that reasonably represent the entire population of in-scope companies;
- Leverage applicable industry sampling guidance to improve the efficiency and effectiveness of the process;
- Produce a sampling methodology that is simple, fair, and easy to implement and execute.

Reasonable Assurance

Reasonable assurance refers to the degree of satisfaction, determined in advance by the IA and the MSG, that data obtained during the USEITI reporting and reconciliation process adequately supports the MSG's accurate understanding of annual revenues. Reasonable assurance is a subjectively set level of comfort based on evidence, professional judgment, and industry guidance. It is not a numeric level of confidence.

With the Implementation Subcommittee's input and approval, the IA would recommend sharing the proposed sampling methodology recommendation with the International Secretariat and Board to gauge whether it would be viewed as meeting the EITI Standard for reporting and reconciliation. If supported by the International Secretariat and Board, the IA will complete a detailed sampling approach to use in the 2016 USEITI reporting and reconciliation. This sampling approach would apply only to DOI revenue streams, not to federal corporate income taxes due to the lack of publicly available data (see page 4 "Federal Corporate Income Taxes and Sampling").

Sampling Methodology for DOI Revenue

The IA performed an analysis using data from the 2015 USEITI Report, and based on that analysis, we recommend the following approach:

1. DOI will continue to disclose 100% of revenue for all in-scope DOI revenue streams, by company, through the unilateral disclosure;
2. The IA and MSG identify all in-scope companies[1];
3. The IA selects a sample;
4. Sampled companies report revenue to the IA for reconciliation;
5. The IA reconciles company and government revenue for the sampled companies;
6. At the completion of the 2016 USEITI Report, the IA and the MSG will assess and adjust the degree of confidence in the reporting and reconciliation process. As data is collected and compiled each year, confidence in the integrity of the process should grow. This will reduce the subsequent year's sample size required to achieve reasonable assurance.

For selecting reporting companies, the IA recommends a **stratified random sample**. To sample companies in this manner, the IA would divide all of the in-scope companies into three strata based on total revenue: large, medium, and small payors. This stratification helps cover a reasonable amount of the total revenue reported. The IA would determine the sample size in coordination with the MSG for each strata guided by professional standards, such as those provided by the American Institute of Certified Public Accountants (AICPA) and the Public Company Accounting Oversight Board (PCAOB) for sampling. Next, for strata whose sample size is less than 100%, the IA would randomly select a sample of companies. Finally, the IA would collect data from these companies and reconcile government and company data.

An example for how this *could* work using data from the 2015 USEITI Report (CY 2013 data):

A Stratified Random Sample Using Data from the 2015 USEITI Report

1. **At the start of each USEITI reporting cycle, identify DOI's population of in-scope companies**. For 2015, the total population of in-scope companies was 44.

2. **Sum each in-scope company's revenue streams into one Total Revenue number**. This provides a Total Revenue number for each individual company.

3. **Sum all in-scope companies' Total Revenue numbers into one Total Revenue number for the entire in-scope population**. In 2015, this total was $9,961,471,883.

4. **Divide the Total Population Revenue number into three strata.** For the MSG's consideration we propose the following:

    - **Top strata**: Encompasses 60 percent of in-scope Total Revenue. In 2015, this equals a threshold of $5,976,883,129.

[1] The MSG determines the revenue threshold for what will define an in-scope company. The IA will identify companies that meet the inclusion criteria based on Government data.

- **Middle strata**: Encompasses 25 percent of in-scope Total Revenue. In 2015, this equals the range of revenue from $5,976,883,129 to $8,467,251,100.
- **Bottom strata**: Encompasses 15 percent of Total Revenue. In 2015, this equals the range of revenue from $8,467,251,100 to $9,961,471,883.

5. **Sort, from largest Total Revenue to smallest Total Revenue, the in-scope population of companies. Then organize them into the top, middle, and bottom strata.** This stratification into three subpopulations helps the sample cover a reasonable amount of the total revenue reported in a given year. In the 2015 USEITI Report, seven companies were responsible for approximately half of all USEITI in-scope Total Revenue, while the remaining 37 companies were responsible for the other half. Therefore, without this stratification, selecting companies randomly could skew the sample toward those companies reporting smaller revenue.

6. **Determine sample sizes for each strata**.[2] The AICPA states in their Government Audit Quality Center's guidance for federal engagements that, *"…a rule of thumb … is to test a sample size of approximately 10 percent of the population, but the size is subject to professional judgment, which would include specific engagement risk assessment considerations."*

   In the case of our strata, the populations based on 2013 CY data are only nine, 15 and 20. Following this rule of thumb would result in sample sizes too small to provide the necessary reasonable assurance; particularly when the in-scope companies have not yet gone through successive rounds of reporting and reconciliation. Therefore, at least in the early years of a sampling approach implementation, the IA recommends heavier reliance on the "professional judgment" of the IA and the MSG.

   Company and Government data reported and reconciled through the USEITI process are guided by established USEITI procedures and are governed by extensive controls outside of the USEITI process, including formal external audit procedures and established internal controls. Further, for the 2015 Report, no company was found to have an unexplained.

   The IA also has a methodology to help determine appropriate sample size based on industry and professional guidance. The methodology was developed from guidance from the AICPA and the PCAOB, and is used by the IA on engagements where sampling is required. The methodology advises the minimum sample sizes for reporting and reconciliation based on the assessed level of risk and the extent to which established procedures and controls govern the process.

   Based upon the IA methodology, for a population between 40 to 50 entities (for 2015 the total population of in-scope USEITI companies was 44), a minimum sample size of nine is required. This means sample sizes for our three strata can be selected by the IA and the MSG, provided that, cumulatively for all the in-scope companies, they are no less than nine companies selected. The IA recommends incrementally building to the minimum sample size for the USEITI reporting process.

   The IA recommends beginning the first year of a sampling approach with large sample sizes; with the largest sample sizes required for the top strata, which will include 60% of in-scope revenues.

[2] Note that it is not necessary to have a complete set of government reported and company reported data for the current year to determine minimum sample size criteria. A minimum sample size can be set based upon professional judgment.

The middle and bottom strata will have sample sizes that will be incrementally smaller. The success or problems encountered in the first year of the sampling approach will inform the IA and the MSG if adjustments to the sampling approach are required in future years.

The table below shows the IA suggested incremental approach to the sampling process, which can achieve a long-term savings in the level of effort for all in-scope companies and the Government.

In-scope Compaies Mult-year Sampling (Based on 2015 Companies)

STRATA	YEAR 1		YEAR 2		YEAR 3	
	Sample Size %	Sample Size	Sample Size %	Sample Size	Sample Size %	Sample Size
TOP (60%)	100%	10 out of 10	90%	9 out of 10	80%	8 out of 10
MIDDLE 25%)	60%	9 out of 15	40%	6 out of 15	25%	4 out of 10
BOTTOM (15%)	40%	8 out of 20	25%	5 out of 20	10%	2 out of 10

7. **Select companies for the sample**. Once the sample size is determined, a random selection within each strata will occur. Companies participating in one year can have their selection weights adjusted in the following year(s) to reduce their chances of being immediately selected again. The more years a company is included in the sampling selection, the proportionally lower its chances of being selected in the subsequent year. This mechanism should help fairly distribute the time and cost savings in level of effort across all in-scope companies.

8. **Companies selected as part of the sample report to the IA.**

9. **The IA reconciles company and government revenue for sampled companies.**

10. **Following the completion of the process, the reporting and reconciliation process is assessed and adjusted as necessary.**

Federal Corporate Income Taxes and Sampling

The MSG has currently included two major categories of revenue in USEITI reporting: DOI revenue and federal corporate income taxes. For DOI revenue, the public can access payment information for 100% of in-scope companies through DOI's unilateral disclosure. However, the only way the public can access federal corporate income tax payment information by company is if companies chose to release this information publicly, potentially through USEITI reporting.

The EITI Standard requires "full government disclosure of extractive industry revenues." For this reason, the MSG may wish to request that all in-scope companies report federal corporate income taxes in 2016. Given that five companies chose to reconcile taxes in 2015, the MSG may also consider a similar approach to tax reconciliation in 2016. If in the future, if public companies are required to publicly report under Dodd-Frank 1504, a sampling approach for tax reconciliation could address the EITI Standard while reducing the burden on reporting companies and the government.

Potential MSG Approach for 2016 Reporting and Reconciliation by Revenue Type

	DOI Revenues	Federal Corporate Income Taxes
Reporting	100% of in-scope revenue through DOI's unilateral disclosure	For 2016, request 100% of in-scope companies report
Reconciliation	Sample a subset of companies to reconcile DOI revenue	For 2016, request 100% of in-scope companies allow for reconciliation

The EITI Standard and Sampling

While reducing the burden associated with reporting and reconciliation is important, sampling must also support the EITI Standard, in particular Requirements 4 and 5 listed below:

- **Requirement 4:** "The EITI requires the production of comprehensive EITI Reports that include full government disclosure of extractive industry revenue and disclosure of all material payments to government by oil, gas and mining companies."
- **Requirement 5:** "The EITI requires a credible assurance process applying international standards."

There is some precedent for sampling: the International Secretariat has indicated that Mongolia is the only country to use sampling to-date, and Australia piloted a sampling methodology to determine if they would participate in EITI. The EITI has also expressed interest in finding ways to reduce the reconciliation burden while achieving the same accountability and transparency results. The EITI mainstreaming effort "is expected to map out alternatives to reconciliation for ensuring the reliability of revenue data" (Concept note: pilot on mainstreaming EITI disclosures).

Based upon the current regulatory environment in the U.S., which includes mandatory audit reporting for public companies, regulatory oversight, and a reporting structure and review process for payment received by the government, the U.S. would be a potentially credible candidate to implement a sample approach for reconciliation.

Given that a sampling approach would reduce the reconciliation burden without reducing the amount of revenue reported to the public, it could be a worthwhile topic of conversation with the International Secretariat.

Expected Long-Term Results

The IA anticipates, over the long-term, effective use of this sampling approach to reduce the real and perceived burden of the reporting and reconciliation process. After implementation of Dodd-Frank 1504, C-corporations will be required to report all revenue, including federal corporate income taxes. Sampling could be a longer-term approach to implementing the reconciliation component of the EITI standard in a way that reduces the burden on industry and the government and adapts the standard to the U.S. context where significant audit and assurance practices are already in place.